EFFECT OF STRATEGY ORIENTED COMPETITIVE INTELLIGENCE PRACTICE ON THE PERFORMANCE OF FIRMS LISTED ON THE NAIROBI SECURITIES EXCHANGE, KENYA.

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Abstract

The dynamic business environment is continuously working to drive down the capability of a business produce a fair return on invested capital. To compete effectively in the turbulent business environment firms have been forced to embrace advanced competences that support strategic decision making by providing accurate and timely information on opportunities and threats, competitor assessment that support strategic planning and implementation which is the main objective of competitive intelligence. Strategy oriented competitive intelligence practice addresses the long perspective of the business to enable it survive and sustain competitive advantage. The target population for the study were all the sixty firms listed on the Nairobi Securities Exchange (NSE). Primary data was collected by the use of a semi-structured questionnaire and secondary data was obtained from published financial reports. The data collected was analyzed using descriptive and inferential statistical tools. The findings indicate that strategy oriented competitive intelligence practice had a positive and statistically significant relationship with the performance with firms listed on the Nairobi securities exchange.

Key Terms: Competitive intelligence, strategy oriented competitive intelligence, Firm performance, competitive strategy

Background Information

Firms today are experiencing an increasingly competitive environment created by globalization, advances in technology, social and economic changes as well as fast shortening product life cycle that has led to hyper-competition (Muthama & Ngugi, 2012). Increased competition in an industry leads to lower levels of activity in organizations hence negatively impacting on performance (Assefa, Hermes & Meesters, 2010). While Al-Rfou (2012) established a positive relationship between competition and firm performance, a negative relationship cannot be ruled out in highly competitive industries (Odhiambo, Kibera & Musyoka, 2015).

The challenge for the management of many organizations today is the quest to improve performance and deal with the changing competitive landscape. Organizational management like to see tangible results of and positive return on their investment in given activities and may complain if they perceive lack of understanding of how a given activity actually contributes to performance (Kaplan & Norton, 1992). There is a need to evaluate performance with the primary objective of providing valid and reliable data on performance. Measuring performance is essential for enabling researchers and managers to evaluate the specific actions of firms, and how firms perform over time (Sabina, 2009).

Intelligence is a problem solving process that involves information gathering and analysis, interpretation, and speculative consideration of future developments, patterns, risks and opportunities through the exercise of human judgment (McDowell, 2009). Competitive analysis forms new communication links both inside and outside the firm. Intelligence is information that has been analyzed for decision making. Competitive intelligence can be viewed both as a process and a product. As a process, it is the set of legal and ethical methods for collecting, developing, analyzing and disseminating actionable information pertaining to competitors, suppliers, customers, the organization itself and business environment that can affect a company's plans, decisions and operations (Yap, Rashid & Sapuan, 2011).

McGonagle and Vella (2002) state that strategy oriented competitive intelligence provides support for strategic decision making. It plays the role of providing higher levels of management with information on the competitive, economic, legal, and political environments in which an organization and its competitors operate now and in the future. It may also involve developing competitive intelligence on candidates for potential mergers and acquisitions as well as for alliances and partnerships.

Role of Securities Exchange

A stock exchange is a marketplace in which securities, commodities, derivatives and other financial instruments are traded. The core function of an exchange is to ensure fair and orderly trading, as well as efficient dissemination of price information for any securities trading on that exchange (Capasso, 2006). Singh (1997) stated that stock markets are established to be a means of accelerating economic growth through increased domestic savings and improvement of the quantity and quality of investment. Security exchanges give companies, governments and other groups a platform to sell securities to the investing public.

Nairobi Securities Exchange

There are 60 companies listed on the Nairobi securities exchange (NSE, 2014). These are grouped into eleven sectors: agricultural; automobiles and accessories; banking, commercial and services; construction and allied; energy and petroleum; insurance, investment; manufacturing and allied;

telecommunication and technology; and growth and enterprise market segment. The securities' exchange also lists treasury bonds issued by the Government of Kenya (GoK) and occasionally, there are privately issued corporate bonds as well. The level of performance is influenced by various factors such as corporate governance, weak regulatory framework and the slow level of economic growth. Performance keeps alternating between bull runs when the prices for most stocks keep rising and bearish season when prices either stagnate or generally decline.

Research Objective

To determine the effect of strategy oriented competitive intelligence practice on the performance of firms listed on the Nairobi securities exchange.

Research Hypothesis

H_{01}: Strategy oriented competitive intelligence practice has no effect on the performance of firms listed on the Nairobi securities exchange.

Statement of the Problem

In Kenya studies on competitive intelligence are generally limited. These studies are, however, descriptive case-based in nature, were done on specific firms or industries and used profitability as the measure of performance leaving out non-financial measures. These studies focused on product, market and technology intelligence (Mugo, Wanjau & Ayodo (2012); Muthama,& Ngugi (2012); and Ngugi, Gakure & Mugo (2012) whereas current study focused on strategy oriented competitive intelligence practice. In the contextual gap among NSE listed companies and the limited empirical review, the study aimed to establish the effects of competitive intelligence practices on firms listed at the Nairobi securities exchange and relate it to the firms' performance measured in both financial and non-financial terms.

Practical Implications of the Study

Management of the listed firms should increase the amount of resources devoted for competitive intelligence activities as they were found to be low. The firms without a functional unit dedicated to competitive intelligence activities should create one to enable them cope with the changing business environment. Since employees play a critical role in the process of collecting information for competitive intelligence purposes, they should be trained to improve their effectiveness in this task. Listed firm should improve the implementation of strategy oriented competitive intelligence practice to enable them sustain competitive advantage in the long term and be able effectively analyze potential candidates for merger, acquisition or strategic alliances.

Literature Review

The resource-based theory was postulated by Penrose (1959). The theory explains the main characteristics of resources that lead to competitive advantage in the market. According to this theory, resources to a varying degree are both significantly heterogeneous across industries and imperfectly immobile (Hunt & Derozier, 2004). In essence this theory suggests superior performance through enhanced competitive advantage gained by the use of unique, high value and rare organizational resources.

From a firm's perspective, competitive intelligence can help a firm to understand how and where to find unique resources and capabilities that can help it compete effectively. Thus this theory is applicable to the study since every firm require resources to enable it acquire, process, analyze, disseminate and implement competitive intelligence. Competitive intelligence units can help a firm to understand how a rival has developed their own unique capabilities and asset caches, assess a rival's ability to imitate strategy or assist a company to assess how to uniquely bundle resources to create value for customers. The amount and scope of competitive intelligence needed by a firm largely depends on its strategic orientation (Zinkhan & Gelb, 1985).

Strategic-oriented competitive intelligence focuses on the longer term issues affecting the companies' competitiveness over several years. The actual time horizon for this type of intelligence ultimately depends on industry and how quickly it is changing. This type of intelligence work involves among others, the identification of weak signals and application of methodology in a process called Strategic Early Warning (SEW). Strategic oriented intelligence analysts identify macro trends within the external environment. McDowell (2009) states that strategic oriented competitive intelligence can be a source of sustained competitive advantage by enabling a firm to develop, create as well as protect shareholder value over the longer term.

Empirical Literature

Viviers, Saayman, Muller and Calof (2002) found that South African firms were very poor in the formal organization and processing intelligence. In most companies the marketing department was responsible for the competitive intelligence function and firms were found to recognize the importance of getting information from people in and outside the firms. Most employees were found to have regularly reported competitive information to appropriate managers although the information was rarely validated. The study found that the responding South African firms had the right attitude towards competitive intelligence. Most respondents agreed that competitive intelligence could be used to create competitive advantage for their companies and that senior management supported intelligence activities. However, respondents indicated that employees did not understand what competitive intelligence was, and only marginally agreed that senior managers use competitive intelligence regularly in planning and strategic decision making.

Wright, Pickton and Callow (2002) examined competitive intelligence in UK firms and found firms with integrated procedures in which competitors are determined by satisfaction of customers needs, intelligence gathered through conducting primary research, information gathered translated to strategic action and there was an intelligence unit charged with a specific mandate and located where it would have greatest impact. Using the findings the researchers developed best practice typology for effective competitive intelligence practices in an organization.

In an investigation on the acquisition and strategic use of competitive intelligence in Malaysian listed firms (Yap & Rashid, 2011) found that more than half of the surveyed firms had formal competitive intelligence units. The units were found to be located within the marketing or market research or corporate planning departments. It was found that on average the units employed between two to five full-time employees. The top source of competitive intelligence for managers was newspapers and periodicals, the internet, extranets and customers. The intelligence acquired was mostly used while making strategic decisions.

In a study that examined perceived environmental uncertainty and competitive intelligence practices (Yap, Rashid and Sapuan, 2011) found that where managers had a higher perception of environmental uncertainty, there existed a higher need for information processing. The study's findings indicated that when the business environmental sector was perceived to be variable and complex, managers tended to acquire and process information about that sector to reduce its uncertainty when making strategic decisions. The study also found that when the environmental sector was perceived to be of strategic importance and uncertain, then a greater amount of competitive intelligence was acquired and the greater the extent of the intelligence was used in strategic decision making.

Methodology

The study adopted a mixed design of descriptive and explanatory survey research. According to Sekaran and Bougie (2009) a researcher should use more than one design to enhance the study; hence these two designs were used to achieve the optimal results as recommended by (Saunders, Lewis & Thornhill, 2009). Mixed methods can elicit insights that may be overlooked by a mono-method and can produce more complete knowledge contributions to theory and practice (Niglas, 2008).

Target Population

The target population for this study were all the companies listed on the Nairobi securities exchange. There are 60 companies listed on the Nairobi securities exchange (NSE, 2014). A census study of all 60 firms listed at the Nairobi securities exchange was done. The study targeted the manager or director in-charge of planning /strategy in each firm as the unit for observation.

Empirical Model

The study was guided by linear regression.

$P = \beta_0 + \beta_1 STR + \varepsilon_i$

Where:

β_0 is the intercept

β_1 are the Beta coefficient

STR represents strategy oriented competitive intelligence practice

ε_i is a random variable, error term that accounts for the variability in P that cannot be explained by the linear effect of the predictor variables.

Data Collection

Both Primary and secondary data were collected for this study. Primary data was collected from the director/manager in-charge of planning or strategy in each firm listed on the Nairobi securities exchange. Secondary data was obtained from firm's published annual reports for the years 2011 to 2013 which are available at the Nairobi securities exchange. These are the years when the number of firms issuing profit warnings rose drastically. The information collected included profit before tax, Return on Assets (ROA), Return on Equity (ROE). The collection of secondary data was facilitated by document review guides.

Descriptive statistics such as mean scores, standard deviations, percentages, and frequency distribution were computed to describe the characteristics of the variables of interest in the study. Qualitative responses was categorized, coded and grouped into themes that emerged and then triangulated with quantitative data of the study. Inferential statistics such as correlation and regression analysis as suggested by Muthen and Muthen (2007) was used to establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationships. The findings were presented using tables. Data was analyzed using SPSS version 17. A regression model was developed and correlation analysis was conducted at 95% confidence level. Pearson's product moment correlation (r) was derived to show the nature and strength of the relationship. Coefficient of determination (R^2) was used to measure the amount of variation in the dependent variable explained by the independent variables.

Findings

Questionnaire's response rate was found to be 49 out of 60=81.6% which was very good according to (Mugenda & Mugenda, 2003). About half the respondents 52.4% rated information received for competitive intelligence purposes as good and excellent. Employees were found to be the most frequently used means of gathering information for intelligence purposes. Internet was ranked as the most important source of information for competitive intelligence purposes. E-mail was found to the most preferred means of dissemination competitive intelligence in the listed firms. SWOT analysis was ranked as the most preferred technique for analyzing information

The Pearson correlation coefficient of strategy oriented competitive intelligence practice versus performance of firms listed at the Nairobi securities exchange was computed as 0.738 (p value=0.000) which is a positive relationship between the variables. The R-Square value of 0.545, indicating that the independent variable (strategy oriented competitive intelligence practice) explained 54.5% of the variation in performance. The remaining 45.5% is explained by other management practices and strategies put in place by managers.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.738	.545	.535	1.35462

a. Predictors: (Constant), Strategy oriented competitive intelligence

The results on the beta coefficient of the resulting model shows that the constant α=-10.59 is significantly different from zero. The coefficient β=.851 is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The findings indicate that when strategy oriented competitive intelligence practice is increased by 1 unit, performance of firms listed on the Nairobi securities exchange is expected to increase by 0.851 units.

Conclusion

Strategy oriented competitive intelligence practice that provides higher levels of management with information on the competitive, economic, legal, and political environment in which an organization and its competitors operate in now and in the future was found to be positive and statistically significant in the study.

Policy Recommendations

Management of firms listed on the Nairobi securities exchange should consider raising the current level of competitive intelligence activities to reap higher benefits. Management should consider using more sophisticated tools and techniques for analyzing information.

Suggestions for Further Research

Future research should build on the findings of this study to enrich existing knowledge on the practice of competitive intelligence. Such studies, for example should consider carrying out research on the effect of strategy oriented competitive intelligence practices on the non-listed corporate sector firms to validate this study and add more knowledge to this area.

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